

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7114

BILL NUMBER: HB 1274

NOTE PREPARED: Jan 9, 2006

BILL AMENDED:

SUBJECT: Use of Tax Amnesty Funds to Reduce Welfare Levy.

FIRST AUTHOR: Rep. Crawford

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill uses money received under the tax amnesty program to provide an additional Property Tax Replacement Credit against the amount by which Family and Children's Fund property taxes increases in a county after 2005.

The bill limits the total additional property tax relief granted to a taxpayer for Family and Children's Fund property taxes imposed on not more than \$350,000 of the assessed value of the taxpayer's residential property in the county and \$1,000,000 of the assessed value of the taxpayer's nonresidential property in the county. It also makes an appropriation.

Effective Date: January 1, 2006 (retroactive).

Summary of Net State Impact: The net balance of surplus tax amnesty program collections after funding of the county family and children fund credits as provided for in this bill is estimated as follows.

**Estimated Balance of Tax Amnesty Collections
After Funding of County Family and Children Fund Credits**

	<u>FY 2007</u>	<u>FY 2008</u>	<u>Total</u>
Surplus Amnesty Funds*	\$209.3 M		\$209.3 M
Child Welfare Credits	<u>77.6 M</u>	<u>\$57.8 M</u>	<u>135.4 M</u>
Net Surplus Amnesty Funds* After Child Welfare Credits	\$131.7 M	\$73.9 M	\$ 73.9 M

* The Surplus Amnesty Funds category only reflects collections as of 12/31/2005, so the net balance will increase as additional funds become available through 6/30/2006.

Explanation of State Expenditures: *Child Welfare Credits:* Under this proposal, the state would use tax amnesty surplus funds to fund a credit against the property tax liability attributable to the county family and children fund in CY 2006 and CY 2007. The credit would be equal to the percentage increase in the county's Family and Children's Fund levy from 2005 (base year) to the current year (2006 or 2007) multiplied by a taxpayer's current net property tax liability attributable to eligible net assessed value (AV). Each taxpayer's eligible net AV would equal up to \$350,000 AV of residential property, countywide, plus up to \$1 M AV of nonresidential property, countywide.

Tax amnesty surplus money would be transferred to the Property Tax Replacement Fund (PTRF) and held separate from other money in the fund. Tax amnesty surplus money that remains after all credits are paid would revert to the General Fund.

In CY 2007, the credit would be paid only if enough of the tax amnesty surplus money remains (after paying 2006 credits) to pay at least 2% of the calculated credits in 2007. If the tax amnesty surplus money is insufficient to fully fund the credit for either year, the credits for all taxpayers would be reduced proportionately.

The statewide total gross family and children fund levy was \$263.7 M in CY 2005 and is projected at \$326.5 M in CY 2006, \$387.4 M in CY 2007, \$406.7 M in CY 2008, and \$427.1 M in CY 2009.

The statewide total net family and children fund levy was \$234.0 M in CY 2005 and is projected at \$280.6 M in CY 2006, \$332.1 M in CY 2007, \$341.2 M in CY 2008, and \$357.7 M in CY 2009.

The county parcel and property tax return data examined suggests that in 2003, 96.1 % of residential property, 61.7% of non-residential real property, and 38.5% of personal property AV would qualify for credits under the AV limitations. Overall, an estimated 77% of all AV would qualify. These percentages would change over time as assessments for different properties grow at different rates.

The net cost to the state is estimated at \$48.7 M in CY 2006 and \$86.7 M in CY 2007 for a total of \$135.4 M. Because of timing issues, it is likely that all of the CY 2006 credits would be paid in FY 2007. If that occurs, the cost on a fiscal year basis is estimated at \$77.6 M in FY 2007 and \$57.8 M in FY 2008. It would appear that sufficient tax amnesty surplus money would be available to fully fund the credits.

Cost estimates are based on growth estimates for assessed values and children's welfare levies as outlined below. These estimates may be updated at a later date if new information is obtained.

Methodology: Parcel-level real property and return-level personal property tax data for taxes payable in 2003 was used to estimate the portion of each taxpayer's property that would qualify.

Estimates of assessed value by county begin with the 2005 abstract AV for all real property, homesteads in particular, and personal property by county. These amounts were broken out into more detailed categories using county property record card data. Adjustments include the remaining inventory deductions in CY 2006 and CY 2007, the \$880/acre base farmland assessment beginning in CY 2006, and annual real property AV adjustments beginning in CY 2007 (including equalization).

Estimates of county family and children's fund levies for CY 2006 are the county adopted levies for CY 2006. The 2006 levies must be certified by the DLGF by February 15, 2006. Changes in the amount levied by each county are possible until that time.

CY 2007 levy estimates were increased by the cost of new programs that will be implemented sometime in CY 2006. CY 2007 and later levies were assumed to grow at 5% per year, the three-year (2002-2005) average annual statewide growth in this levy.

Explanation of State Revenues: *Tax Amnesty Funds:* Under this proposal, the State Budget Agency would be required to certify the amount of available revenue received, or to be received, under the state's tax amnesty program. The available amount would equal the collections received or expected, less the amounts in those collections that are attributable to local taxes or from certain other fees and taxes and less the estimated costs to administer this credit in 2006 and 2007. The available amount would be transferred to a special nonreverting account in the General Fund that would be used only for the purpose of paying for child services.

The Department of State Revenue reports that the money received under the Tax Amnesty Program through December 2005 which would be certified through the above calculation would be approximately \$209.3 M. It must be noted that this estimate does not account for the portions of individual Local Option Income Tax and Financial Institutions Tax that will be distributed to political subdivisions. It is also unknown what the administrative expenses will be, but there should be sufficient revenue to cover the credits as noted above.

Background: The Tax Amnesty Program began on September 15, 2005, and ended on November 15, 2005. The program was enacted in P.L. 236-2005 to allow payment of tax liability without penalty by taxpayers who:

- (1) had never filed (nonfilers);
- (2) filed a return, but underreported income, misapplied credits or deductions; or
- (3) did not file a subsequent return (accounts receivable).

According to the Department of State Revenue, over 91,000 taxpayers took advantage of the program. Total amnesty collections for all taxes through December of 2005 were equal to \$210.2 M. The Department of State Revenue has reported that after all payments are collected, the total amount of all collections from the amnesty program will equal close to \$255 M with administrative expenses currently estimated at \$12 M.

Explanation of Local Expenditures: Local expenditures would not be affected by this bill.

Explanation of Local Revenues: This tax credit would be available to property in TIF areas. The credit in a TIF area would reduce the TIF proceeds from the allocated assessments. The bill allows the governing body of a TIF or TIF-like district to reduce the credits if the credits would reduce tax revenue to an amount that is insufficient to make bond payments.

State Agencies Affected: Department of Local Government Finance; Department of State Revenue; State Budget Agency.

Local Agencies Affected: Counties.

Information Sources: Local Government Database; DCS; County real property assessment records; county auditor's abstracts; Bureau of Economic Analysis.

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